

Bank Enterprise Award Program

Guidance to FY 2000 Applicants

(Issued March 2000)

This document is intended to highlight some common questions and concerns for BEA Program Applicants in carrying out Assessment Period activities. For more information on the BEA Program, including definitions of capitalized terms used in this document, see the Application, the applicable Notice of Funds Availability, and Interim Rule (12 CFR Part 1806), all of which may be found on the Fund's website at www.treas.gov/cdfi. You can also contact the CDFI Fund staff member assigned to your application if you have any questions.

GENERAL POINTS

Activities of the Applicant: All qualified activities must be carried out by the Insured Depository Institution that is the Applicant or a subsidiary of the Applicant. Transactions carried out by other affiliates (as defined by the Bank Holding Company Act, 12 USC 1841(k)) are not eligible. Activities of a community development corporation (CDC) that is a subsidiary or affiliate of a bank holding or thrift holding company, but not a Subsidiary of the Applicant, are not eligible. Activities of a bank foundation are eligible only if the foundation is a Subsidiary of the Applicant. If you are not sure on the status of any affiliate, contact the Fund for clarification.

Originations: the Applicant or a Subsidiary of such Applicant must originate all activities. Loans purchased by the Applicant from another institution are not eligible.

Reporting within each activity type: On Worksheet 1a or 1b, Applicants must report on all of their activities within each category (i.e. Development and Service Activities or CDFI Related Activities). For example, in the case of Development and Service Activities, an Applicant should report all types of Development and Services (see lines 1 through 13 of Worksheet 1a or 1b). If the Applicant does not engage in a particular type of activity (e.g multifamily housing), such Applicant should report "NA" on the appropriate line of Worksheet 1a or 1b. If the Applicant is unable to report on all of its activities in a particular category of activities, it must explain why it cannot report. *For example, if an Applicant does not offer Consumer Loan as a product line, it should state "Not reporting—applicant does not offer Consumer Loans."* Applicants that are unable to report under any particular type of activity category must be prepared to sign a Certification of Unreported Development and Service Activities prior to receiving a Bank Enterprise Award. This certification will be sent to each Applicant as part of the Final Report package. You should expect to receive this package before the end of May 2000.

Rounding: All reported amounts should rounded down to the nearest dollar.

Mergers: If the Applicant has recently completed or intends to complete a merger with another institution during the Assessment Period, it must provide separate Baseline Period worksheets for each subject institution and one Assessment Period worksheet that represents the combined activities of the merged institution.

Becoming a CDFI: If an Applicant is seeking certification as a CDFI or seeking to engage in CDFI Related Activities with an organization that currently is not a certified CDFI, it (or the prospective CDFI) must submit an application for certification to the Fund. The Notice of Funds Availability published in the Federal Register for the FY 2000 funding round of the BEA Program stated that such certification applications should be submitted to the Fund not later than November 23, 1999 in order for the Fund to

guarantee that it will complete a certification review prior to the end of the Assessment Period (June 30, 2000). While the Fund will make every effort to complete its review of all such applications, if such an application was submitted after November 23, 1999, the Fund does not guarantee that it will be able to complete the review prior to the end of the Assessment Period. If such certifications are not complete by June 30, 2000, an Applicant engaging in CDFI Related Activities will be ineligible to receive an award for assistance provided to an uncertified organization.

Disbursements of Awards: The Fund disburses BEA Awards as it receives documentation that the Awardee has disbursed on the transactions that are Qualified Activities. That is, the Fund will disburse the BEA award to an Awardee on a pro-rata basis as the Awardee disburses on its loans or investments to its customers. Therefore, an Awardee may not receive a disbursement of its full BEA award amount initially if the award includes transactions that disburse over time. This requirement applies to lines of credit, term loans, and investments. *For example, if an Awardee earns an award of \$15,000 for a \$100,000 Equity Investment in a CDFI, but only \$50,000 has been disbursed by the Awardee to the CDFI, the first disbursement of the award will be \$7,500.*

Tip: Applicants are urged to collect documentation of all completed transactions throughout the Assessment Period. Applicants are advised not to wait until the end of the Assessment Period or until the Final Report is due to collect such documentation. Advance preparation will save time and effort in completing the Final Report.

DEVELOPMENT AND SERVICE ACTIVITIES

Service Activities

Deposits (line 1 of Worksheet 1a or 1b)

Eligibility: By statute, reporting Deposit-taking is an optional activity for Applicants seeking an award for Development and Service Activities. If an Applicant elects to report its deposit-taking activities, it must report only those deposits accepted from Residents of the designated Distressed Community at the Applicant's branches located within the Distressed Community.

Calculation: Deposits must be calculated by comparing the net change in the amount of eligible deposits at the Applicant's institution during the Baseline Period to the net change in the amount of eligible deposits during the Assessment Period. The calculation is:

- A. *Baseline Period:* The sum of eligible deposits at the close of business on the last day of the Baseline Period (6/30/99) minus the sum of eligible deposits at the close of business the day before the beginning of the Baseline Period (12/31/98).
- B. *Assessment Period:* The sum of eligible deposits at the close of business on the last day of the Assessment Period (6/30/00) minus the sum of eligible deposits at the close of business the day before the beginning of the Assessment Period (12/31/99).
- C. *Comparison:* $B - A =$ net change in deposits during the Assessment Period.

Methodology: On Worksheet 2, explain the methodology used to determine that: (1) account holders are Residents of the Distressed Community (e.g., by geocoding the addresses of account holders); and (2) deposits were accepted at a branch located within the Distressed Community.

Financial Services (line 2 of Worksheet 1a or 1b)

Eligibility: Eligible Financial Services include: check cashing, providing money orders and certified checks, automated teller services, safe deposit boxes, and other comparable services provided to Low-

and Moderate-Income persons or to enterprises integrally involved in the Distressed Community (such as businesses or non-profit organizations that provide services to Residents of the Distressed Community or create jobs for such Residents).

Calculation: Financial Services should be reported based on the administrative costs of providing such services. For staff time, use the number of hours used times the hourly salary of the staff member. For other administrative costs, report the actual cost. Provide an itemized list of the costs that you are seeking to be considered as a Qualified Activity. In reporting the cost of Financial Service activities, the applicant should certify that the reported items are an accurate reflection of the actual costs incurred in delivering the service.

Methodology: On Worksheet 2, describe the methodology used to determine that the Financial Services reported were provided to Low- and Moderate-Income persons or enterprises integrally involved in the Distressed Community (i.e. how did you distinguish services provided to the above mentioned customers from services provided to all customers).

ETAs/IDAs (line 3 of Worksheet 1a or 1b)

Electronic Transfer Accounts (ETAs): ETAs are direct deposit accounts that are available to individuals who are recipients of Federal benefits, wages, salary, or retirement payments. All Insured Depository Institutions that offer ETAs must do so pursuant to the requirements set forth in an agreement with the US Department of the Treasury.

Individual Development Accounts (IDAs): IDAs are matched savings accounts for qualified individuals that are restricted for use for specific activities, including home purchase, post-secondary education, and business capitalization. Generally, most IDA programs limit eligibility to individuals meeting certain characteristics (e.g. low-income individuals).

Eligibility: To report ETA or IDA activities under the BEA Program, the accounts reported must be held by Low- and Moderate-Income Residents of a Distressed Community.

Calculation: For both the Baseline Period and Assessment Periods, an Applicant should multiply the total number of ETA or IDA accounts opened during the respective period by \$50.00.

Methodology: On Worksheet 2, an Applicant should describe the methodology used to determine that the eligible ETA or IDA account holders are Low- and Moderate-Income Residents of the Distressed Community.

IDA match contributions: An Applicant may report funds provided to match IDAs, either directly or through a non-profit entity, under Community Services (see below). **Do not** report match contributions on line 3 of Worksheet 1a or 1b.

Community Services (line 4 of Worksheet 1a or 1b)

Eligibility: Community Services include technical assistance provided to: (1) Residents of the Distressed Community on personal financial issues; (2) small businesses located in the Distressed Community; (3) homeowners located in the Distressed Community; or (4) other similar services deemed appropriate by the Fund.

Calculation: Applicants should report Community Services based on the administrative costs of providing such services. For staff time, use the number of hours contributed times the hourly salary of the

staff member. For other administrative costs (such as printing costs for informational materials), Applicants should report the actual cost. In reporting the cost of Community Service activities, the applicant should certify that the reported items are an accurate reflection of the actual costs incurred in delivering the service.

Methodology: On Worksheet 2, describe the methodology used to determine that the Community Services are provided to Residents, small businesses, or homeowners in the Distressed Community or otherwise benefit the Distressed Community. Provide an itemized list of costs that you are seeking to be considered as a Qualified Activity.

Development Activities

General Reporting Points

Arms-length transactions: To be considered as a Qualified Activity, each loan and investment must be an arms-length transaction with a third party that is not an affiliate (as defined by the Bank Holding Company Act) of the Applicant.

Face value: Each transaction must be reported at the total dollar amount of the closed loan or investment instrument (i.e. the face value of the loan or investment). Lines of credit should be reported at the maximum amount of credit available through the instrument. For transactions that are not expected to be fully disbursed within three years, the amount reported should only reflect the amount expected to be disbursed within three years – or by no later than June 30, 2003.

Closed and disbursed: Transactions reported in the Baseline Period must have been closed and had an initial disbursement within the Baseline Period. Transactions reported in the Assessment Period must have been closed and had an initial disbursement within the Assessment Period.

- To be considered closed, the transaction must be executed by all parties and there must be a legally binding agreement (e.g. note) among the parties to the transaction.
- An initial disbursement must be made in a manner that is consistent with customary business practices and is reasonable given the nature of the transaction. *For example, a token disbursement of \$1 on a \$100,000 loan will not be accepted as an initial disbursement consistent with customary business practice.*

Renewals: A loan that is renewed during the Assessment Period will only be considered a Qualified Activity during the subject Assessment Period activity if that loan has fully matured, been repaid, and a new loan originated within the Assessment Period. Loan renewals within the Baseline Period are treated in the same manner.

Refinancings and ARMs: Refinancing of loans and adjustable rate mortgages may be valued only at the amount of increase to the principal amount of the loan (i.e., the new credit available). For example, if an Applicant originally financed a loan for \$100,000 and the borrower subsequently wanted to refinance the loan and increase the amount borrowed, the Applicant can only claim an increase in the principal amount for the purpose of receiving an award. Thus, if the Applicant increased the amount borrowed to \$125,000, it could only report the additional amount of new credit -- \$25,000 – as a Qualified Activity.

Consumer Loans (line 7 of Worksheet 1a or 1b)

Consumer Loans are new originations (or new credit) to one or more individuals for household, family, or other personal expenses.

Single Family Loans and Project Investments (line 8 of Worksheet 1a or 1b)

Single Family Loans and Project Investments are new originations (or new credit) secured by family residential property(ies) of four or fewer units, including townhouses for purchase and financing related to the construction or rehabilitation of single family residences.

Low-Income Housing Tax Credit: see below under M

Multi-Family Loans and Project Investments (line 9 of Worksheet 1a or 1b)

Multi-Family Loans and Project Investments are new originations (or new credit) secured by multi-family residential property(ies) of five or more units, including condominiums and rental townhouse developments and financing related to the construction or rehabilitation of multi-family residences.

Low-Income Housing Tax Credit: Project Investments for which the Applicant receives a Low-Income Housing Tax Credit as an investor are not considered a Qualified Activity. However, if an Applicant is providing a loan on a multifamily housing project in which the Low-Income Housing Tax Credit is a part of the financing package, the activity will be considered a Qualified Activity provided that the Applicant and/or any of its Affiliates do not have a ownership stake in the subject project.

Commercial Real Estate Loans and Project Investments (line 10 of Worksheet 1a or 1b)

Commercial Real Estate Loans and Project Investments are new originations (or new credit) used for commercial purposes to finance construction and land development or to acquire or rehabilitate a building used for commercial purposes.

Community Facilities: All Applicants engaged in transactions used to finance the acquisition, development or renovation of Community Facilities (e.g. community health centers, day care centers) should report such activities as Commercial Real Estate Loans or Project Investments on line 10 of Worksheet 1a or 1b.

Project Investments in Housing: All Project Investments in single family housing and multifamily housing should be reported within the respective housing categories, rather than as Commercial Real Estate transactions. Only the financing of projects involving commercial real estate projects should be reported on line 10 of Worksheet 1a or 1b.

Business and Agriculture Loans and Project Investments (lines 11-13 of Worksheet 1a or 1b)

Agriculture Loans and Project Investments are new originations (or new credit) secured by farm land (including farm residential and other improvements) or used to finance agricultural production, or made to farmers (other than Single Family Loans or Consumer Loans).

Business Loans and Project Investments are new originations (or new credit) used for commercial or industrial activities (other than Commercial Real Estate, Multi-Family, or Single Family Loans).

Size categories: When reporting Business and Agriculture Loans and Project Investments, all Applicants should make sure that the transactions are correctly classified by size:

- Line 11: All Business and Agricultural Loans and Project Investments of \$100,000 or less should be reported on line 11 of Worksheet 1a or 1b;

- Line 12: All Business and Agricultural Loans and Project Investments of more than \$100,000 through \$250,000 should be reported on line 12 of Worksheet 1a or 1b; and
- Line 13: All Business Loans and Project Investments of more than \$250,000 through \$1,000,000 and Agricultural Loans and Project Investments of more than \$250,000 through \$500,000 should be reported on line 13 of Worksheet 1a or 1b.

Maximum size: Business Loans and Project Investments greater than \$1 million and Agriculture Loans and Project Investments greater than \$500,000 are not Qualified Activities and should not be reported on Worksheet 1a or 1b.

CDFI RELATED ACTIVITIES

General Points

- Applicants proposing to engage in CDFI Related Activities must ensure that the organizations that receive financial or technical assistance have each been certified as a CDFI by the CDFI Fund by June 30, 2000. If such certifications are not complete by June 30, 2000, an Applicant engaging in CDFI Related Activities will be ineligible to receive an award for assistance provided to an uncertified organization.
- Financial or technical assistance provided to an affiliate of a certified CDFI is not a Qualified Activity unless such affiliate is also a certified CDFI.
- If an Applicant is seeking to engage in CDFI Related Activities with an organization that is not yet a certified CDFI, the organization seeking certification must submit an application for certification to the Fund as soon as possible in order to be certified by June 30, 2000. If such certifications are not complete by June 30, 2000, an Applicant engaging in CDFI Related Activities will be ineligible to receive an award for assistance provided to an uncertified organization.
- For the purpose of reporting an Applicant's Baseline Period activities, such Applicant must report all CDFI Related Activities that it engaged in with any certified CDFI -- not just activities engaged in with specific CDFI(s) in which it will engage in new activities during the Assessment Period. Only transactions involving organizations that were certified as CDFIs during the Baseline Period, should be reported during the Baseline Period.

Equity Investments (line 17 of Worksheet 1a or 1b)

Equity Investments are the purchase of equity interests in for-profit CDFIs. Such investments may be in the form of a stock purchase, purchase of a partnership interest, purchase of a limited liability company membership interest, or similar instrument. For the purposes of the BEA Program, Equity Investments also includes Equity-like Loans and Grants made to CDFIs. Secondary Capital investments in Insured Credit Unions are considered an Equity Investment.

Equity-like Loans are loans that have been made under certain terms and conditions that give them equity-like characteristics. The Fund will review each of these transactions on a case-by-case basis. An Applicant may provide a draft of a proposed Equity-like loan agreement to the Fund for review to determine if it meets the Equity-like requirements. The loan must meet all three of the following criteria to be considered Equity-like:

1. The loan must have a "soft," indeterminate maturity date, such that repayment is required only if the CDFI has sufficient resources available after satisfying all other obligations. *For example, a rolling maturity in which the maturity date is automatically extended by one year each year, until the CDFI borrower has resources available for repayment.*

2. Payments of interest and/or principal may only be made out of the CDFI borrower's available cash flow after satisfying all other obligations. Failure to pay principal or interest will not automatically result in a default under the loan agreement.
3. The loan must be subordinated to all other debt except for other Equity-like Loans and equity investments.

Grants made to CDFIs are considered Equity Investments, including grants for capital and operating costs. In the case of a grant made by a CDFI, the Applicant should deduct from the value of a grant the value of benefits received by the Applicant (e.g., cost of meals at a fundraising luncheon).

CDFI Support Activities (line 18 of Worksheet 1a or 1b)

CDFI Support Activities include loans, deposits, and technical assistance provided to CDFIs that can demonstrate that they are integrally involved in a BEA-eligible Distressed Community.

Application Contents: Each CDFI that will be the recipient of CDFI Support Activities from an Applicant must submit to the Fund a Distressed Community Designation (Worksheet 3), Distressed Community Activities Worksheet (Worksheet 4) and map. The CDFI may send these items directly to the Fund. However, the Applicant is responsible for ensuring that the Fund receives all materials necessary to determine in a timely manner that the CDFI is integrally involved in a BEA-eligible Distressed Community. Such materials should be submitted prior to the end of the Assessment Period.

CDFI Requirements: A CDFI will be found to be integrally involved in a Distressed Community if it demonstrates, in the opinion of the Fund, that it has reasonable involvement in the form of providing loans or investments, development services, or other activities within the Distressed Community. *For example, a CDFI may demonstrate it provides both mortgage loans and related homeownership counseling to residents of the Distressed Community.*

Deposits: Certificates of Deposit placed by Applicants in a CDFI that is bank, thrift, or credit union must meet the following conditions:

- The deposit must be committed for a term of at least three years; and
- The deposit may be uninsured (i.e. amounts in excess of \$100,000 are uninsured); or
- The deposit may be insured if it earns a rate of interest that is determined by the Fund to be "materially below market." A "materially below market" interest rate is an annual rate that does not exceed 80% of the rate on a U.S. Treasury bill of comparable maturity (using the discount rate) as of the date the deposit is placed. This rate can be found at the Federal Reserve website at www.federalreserve.gov/releases/H15/update. For a three-year deposit, use the average of the one and five year Treasury bill rates. The rate on the website is updated daily at approximately 4:00 p.m. Eastern Time. Deposits closed prior to that time may use the rate posted for the previous day.

Renewals: A loan or deposit that is renewed (a.k.a. rolled over) during the Assessment Period will only be considered as a Qualified Activity if that loan or deposit has matured and a new loan or deposit originated within the Assessment Period. Loans or deposits renewed during the Baseline Period will be treated in the same manner.

Technical Assistance: Technical Assistance provided by an Applicant to a CDFI must be reported based on the administrative cost of providing the services. For staff time, report the number of hours contributed times the hourly salary of the staff member. For other administrative costs (such as printing costs for informational materials), report the actual cost. An Applicant should submit an itemized list of costs that

it is seeking to be considered as a Qualified Activity. In reporting the cost of Technical Assistance activities, the applicant should certify that the reported items are an accurate reflection of the actual costs incurred in delivering the service.

In-kind contributions: In-kind contributions to CDFIs (such as donation of equipment or office space) are not a Qualified Activity and should not be reported

DOCUMENTATION, FINAL REPORT, AND RECEIVING THE AWARD

Final Report: By the end of May 2000, the Fund will send all eligible Applicants a Final Report package. The package will provide instructions on how to report on activities completed during the Assessment Period. The Notice published in the Federal Register on September 1, 1999 stated that Final Reports must be received in the offices of the Fund by 6:00 p.m. EDT on August 1, 2000. Late Final Reports will not be accepted.

Reporting on transactions: The Final Report requires Applicants to report information on the actual amount, location (census tract or county), date closed, date and amount of first disbursement, and date of final disbursement of all Loans, Project Investments, and CDFI Related Activities.

Documentation: For (1) all CDFI Related Activities and (2) all Loans and Project Investments of \$250,000 or more, Applicants must provide documentation evidencing that the transactions have been closed and initial disbursement(s) have been made. Acceptable documentation includes:

- A promissory note, loan agreement, participation agreement, partnership agreement or similar document as proof of closing; and
- A check, wire transfer verification, or similar evidence of disbursement.

For Development and Service Activity Loans and Project Investments of less than \$250,000 more, Applicants should report each transaction on the Report of Transaction and certify that the reported transactions are a true and accurate representation of the activities actually engaged in.

Award announcement: The Fund expects to announce awards by September 30, 2000. It is projected that the Fund will make initial disbursements of such awards by December of 2000.